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Economic Conditions
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General Business Conditions

THE state of trade has continued good through the month of October, and predictions that activity will hold over the balance of the year are now generally accepted without qualification. Records of factory output, consumption of electric power in industry, and reports on employment all give evidence of a level of manufacturing activity as high, if not higher, than a year ago. Building construction of all kinds is still going forward in large volume, while bank clearings, railway traffic, and returns on retail trade bear witness to a heavy movement of goods through the channels of distribution.

The fall in the stock and cotton markets however, has again placed the business situation under scrutiny and raised questions as to how much longer the present pace can be continued without some interruption. Building, though continuing at high levels, can hardly be expected to expand further, and may undergo some recession, competition in the automobile industry is becoming more severe and the steel industry, instead of showing the usual autumn expansion, is experiencing some falling off in activity. So important are these industries in our present business situation that any possibility of decline in their activities naturally injects an element of doubt into the whole picture.

With cotton selling 8 cents a pound lower than a year ago, and considerably below estimated costs of production, it is evident that the grower has been hurt and the purchasing power of the South as a whole affected. Railroad and other agencies handling the crop should benefit from the larger physical movement, but trade generally may suffer from smaller incoming traffic to the South from other sections of the country. This situation, plus the possibility of something more than a seasonal recession in building and automobiles, are unfavorable elements in the general outlook. They involve changes which necessarily disturb the equilibrium of business and create the need for some readjustment, and readjustment on a large scale is difficult to accomplish without friction.

Until the force and direction of currents now in motion can be measured more accurately, predictions as to future business must be subject to so many qualifications as to be of doubtful value. During the past three or four years we have been remarkably successful in preventing prosperity from running into the usual excess and collapse, but even in this period we have not been free from times when we had to slow down for a breathing spell before going ahead again. At such times the vast amount of construction work going on throughout the country has been the great sustaining factor, the influence of which has thrown business back into its stride and carried it on to new heights of prosperity. Should it prove to be that the country's building requirements are satisfied, business will have lost a sustaining influence which it will have difficulty in replacing.

Present Trade Active

Whatever uncertainties may exist as to business some months hence, it is clear that no tangible evidences of trade reaction have yet appeared. It is true that bank clearings at times during the past month have not made as favorable a showing as was the case earlier in the year, but this has to be taken in conjunction with the fact that wholesale prices have been declining and are now some 5 to 6 per cent below a year ago. Railway car loadings in the week of October 16 broke the record for all time, a fact that carries particular weight at the present time by reason of the current tendency to hand-to-mouth ordering which makes shipments an unusually prompt reflection of the volume of buying.

In its review of the labor market in this State for September, the New York State Department of Labor points out that weekly earnings of factory workers averaged $29.30, an advance of 50 cents since August. This increase, which brings the average earnings to the highest on record, was due to the wide-

spread activity of industry rather than to further rise in the level of wages.

Insofar as building itself is concerned, both the August and September figures on contracts awarded made a surprisingly good showing, the totals reported by the F. W. Dodge Corporation being nearly up to the record breaking levels of August and September last year. The following table comparing contract volume by quarters of 1925 and 1926 suggests which way building tendencies are headed, but does not indicate a very rapid decline. While ordinarily third quarter building drops about 20 per cent under the second quarter, neither last year nor this year witnessed any considerable recession:

	1925	1926
1st Quarter	$1,264,000,000	$1,595,000,000
2nd Quarter	1,814,000,000	1,809,000,000
3rd Quarter	1,872,000,000	1,807,000,000
4th Quarter	1,672,000,000	....
Year	$6,622,000,000	....

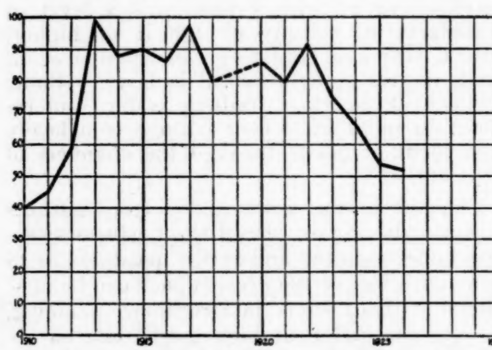
With credit conditions continuing favorable and building costs showing no marked tendency to rise, it seems probable that whatever declines occur will be in the nature of a gradual tapering off rather than a sharp let-down. Demand for residential construction may be largely supplied, and perhaps over-supplied in some sections, but Government construction, road building, and public utility and factory expansion are likely to call for large expenditures. Examples of the sort of thing that is going on quite widely in industry were the recent announcement of General Motors intention to spend $40,000,000 in plant expansion, and the statement that the Goodyear and Firestone tire companies are starting plant additions costing $1,250,000, exclusive of equipment.

Of interest also in connection with the building situation is the following review of the lumber market recently published by the National Association of Lumber Manufacturers. Inasmuch as the lumber figures reflect consumption in small rural communities as well as in the larger cities they make a useful supplement to the permit and contract statistics which are largely confined to building in the cities or to major projects outside.

Washington, October 21.—The "lumber thermometer" of business is encouraging, according to the National Lumber Manufacturers' Association's weekly review of the industry. Virtually the same number of comparably reporting softwood mills show a gain in current orders for the past week of about ten per cent over last year's business, shipments the same and a slight increase in production. For the first forty-one weeks of the year this group of mills enjoyed a business 350,000,000 board feet in excess of that of the like period of 1925. Reports from about 150 other mills, softwood and hardwood, support the showing of the comparable mills. According to this yardstick the lumber business is about five per cent heavier this year than last. Owing to its universal use in manufacturing, and building and, nowadays, short-order buying, lumber is considered an excellent gauge of general business activity.

Automobile Industry Curtailing

The automobile industry is undergoing considerable curtailment, which with some companies is largely seasonal and with others is due to more fundamental causes. The line of cleavage between the successful and the unsuccessful companies is fast becoming clearly marked, and the business is concentrating in a relatively small number of leading companies. The following diagram, comparing the number of different makes of passenger cars exhibited at the national automobile shows each year since 1910, indicates clearly what has been going on. With the first mushroom growth of the industry there was a rapid expansion in the number of companies making cars. Then came a period of comparative stability, and finally, from 1922 on, the period of growing competition when many have dropped by the way-side. By 1926 the number of exhibitors was back nearly to where it was in 1910, with the probability that further decline will be seen when the figures for the 1927 show are out.



Number of Companies Exhibiting at the National Automobile Show by years, 1910 to 1926.

Thus far this process of concentration and elimination has gone on in orderly fashion, and barring some let-down in the general industrial situation due to other cases there seems no reason why it should not continue the same way.

The Oil Situation

Seasonal falling off in demand, coupled with increasing production, have been responsible for price cuts in crude oil and gasoline during October. Crude production has been creeping up steadily under the stimulus of higher prices and in the week of October 23 reached a daily average of 2,286,250 barrels, a new high record for 1926, and an increase of 220,300 barrels over the corresponding week in 1925. Gasoline output has likewise been on the upgrade, the August production of 25,420,000 barrels being the largest on record for any month and 9.2 per cent over August, 1925.

Recurrent periods of over-production in the oil industry have become chronic due to the great increase in drilling activities that accom-

panies any substantial advance in prices, and in the present instance the developments in the Panhandle and Spindletop fields have been largely responsible for the increased production. Consumption of petroleum, however, is increasing by leaps and bounds, the August figure on gasoline use being 18 per cent above that for August, 1925, while the consumption of lubricants likewise set a new high record in that month. As a result of this heavy consumption, and despite larger production, the industry entered the fall with stocks generally much below the high points of this spring and below those of a year ago. On August 31 the stocks of gasoline aggregating 34,551,000 barrels represented at the current rate of demand 36 days' or not much over one month's supplies, compared with 36,236,000 barrels, or 44 days' supply, at the close of August, 1925.

Textiles

Reports from the textile industry continue to indicate marked improvement in the status of that line. Demand for woolen goods has shown a large increase and mill trade is said to be the best in many months. In the cotton goods section the stimulating effect of lower raw material prices was seen in an increase of 14 per cent in cotton consumption during September to 571,105 bales, the largest total since April and 88,023 more bales than was consumed in September last year. Moreover, cotton goods business has continued to hold up remarkably well in October despite the downward plunge of cotton which under ordinary circumstances would have demoralized the market.

Goods prices, though lower, have resisted the full decline in cotton partly because the mills are still operating on raw material purchased at higher prices and partly because the level of goods prices was already considerably below a parity with cotton in many instances. Following is a table showing the extent of the decline in cotton and cotton cloths between the first of September and the close of October. Compared with a year ago the reductions in cotton goods have averaged something over 20 per cent.

	Sept. 1, 1926	Oct. 30, 1926	Per Cent Decrease
Cotton, Mid. Up. spot, N.Y.	18.90	12.85	32.0
Print Cloths, 28 in., 64x64s	5¾	5¼	8.6
Print Cloths, 28 in., 64x60s	5½	5	9.0
Print Cloths, 27 in., 64x60s	5¼	4¾	9.5
Gray Goods, 38½ in., 64x64s	8¼	7½	9.0
Gray Goods, 39 in., 68x72s....	8¾	7⅝	12.9
Gray Goods, 39 in., 80x80s....	10⅜	9⅜	9.6
Brown Sheetings, 3-yd.......	11¾	11	6.3
Brown Sheetings, 4-yd.......	9¾	9¼	5.1
Brown Sheetings, Stand.....	13	12	7.6
Tickings, 8-oz.	19	18½ a 20	—
Denims	15	15½	*3.3
Staple Ginghams, 27 in.......	9	9	—
Kid finished Cambrics........	8½ a 9	8½ a 9	—
Dress Ginghams	12½ a 16½	12½ a 16½	—
Standard Prints	8	8	—

* Increase.

The following excerpts from a statement issued by the Association of Cotton Textile Merchants of New York, covering the first 15 days of October, reflect the large volume of business going forward, and demonstrate the strength of the market's statistical position:

> **Shipments of standard cotton textiles during the first fifteen days of October exceeded production for the same period by 10,551,000 yards, or 10 per cent. Shipments for these two weeks totaled 115,871,000 yards against production of 105,320,000 yards.**
>
> **Stocks continued the decline which has been in evidence under persistent buying demand since last July. Stocks on hand October 15 totaled 213,757,000 yards, against 224,208,000 yards October 1, a decline of 4.7 per cent. Since July 1, when stocks were 305,425,000 yards, the decline amounts to 27.7 per cent.**
>
> **Unfilled orders on October 15 totaled 309,823,000 yards, a decrease of 8.6 per cent from the total of 338,650,000 yards reported October 1, but an increase of about 65 per cent since July 1.**
>
> **Supplementing the above figures it has been definitely learned that the sales of gray cloths in the third week of October ended Saturday ran 25 per cent in excess of production and there was a further moderate reduction of stocks due to continued shipments on order.**

Inasmuch as the manufacture of textiles is one of the largest industries of the country, the effect of its return to more normal conditions can be counted an important influence towards offsetting unfavorable developments in other quarters.

General Conditions

Perhaps never before after so prolonged a period of prosperity has our business and financial structure generally been so well equipped to stand strains of readjustment. Credit conditions are good and the resources of the Federal reserve banks are practically untouched. Commodity prices have been declining for more than a year, which has encouraged conservative buying and discouraged the building up of excessive inventories. The cash position of our large corporations is in most cases exceptionally strong. Thanks to the greatly increased productivity of industry due to the adoption of labor saving devices, the benefits of which have been participated in by labor and capital alike, the purchasing power of the great mass of the people has kept in step with our great productive capacity.

Summarizing the industrial outlook, it would appear that business continues at prosperity levels, but that certain maladjustments are appearing that will require correction. Were prices rising rapidly and money tightening it could be said with assurance that we were approaching a period of sharp liquidation. In the absence of these symptoms we must require further evidence before abandoning confidence that whatever adjustments are needed cannot be effected without seriously disturbing our general business situation.

Money and Banking

Lateness of the crops in many sections of the country has apparently prolonged the usual autumn period of commercial borrowing and carried the expansion of commercial loans somewhat beyond the date when they usually reach a maximum. Ordinarily this peak comes at the middle of October, but this year the figures of the weekly reporting banks for October 20, the latest available date, show a further increase of $67,000,000 to $8,932,000,000. At this point they were approximately $400,000,000 above the summer low point and $260,000,000 above last year's autumn peak, which was reached on October 14. This increase is in keeping with other evidences of a substantially larger volume of trade this Fall than a year ago.

Inasmuch as the further expansion of commercial borrowing during the month was accompanied by a substantial reduction in the volume of funds employed in the security markets, money rates showed an easier tendency than usual at this time. According to figures of the weekly reporting banks, loans on securities dropped $157,000,000 in the three weeks ended October 20, all of which decrease may be accounted for by an equivalent drop in brokers' loans at New York, these reaching the lowest levels since last July. With this decrease in funds employed in the stock market, call money rates eased off from 5 to around 4½ per cent and there was a slight shading of time money and open market commercial paper rates. Unless further commercial demands prove unexpectedly large, money should continue relatively easy until December when the currency requirements of the holiday trade may be expected to bring about the usual temporary firming.

At the Federal reserve banks, the volume of member bank borrowing has followed a normal seasonal course and during the past few weeks has averaged only moderately above a year ago. Bills bought in the open market are about the same as last year, while holdings of Government securities are running slightly under 1925 levels. With total bills and securities of the Federal reserve banks at or somewhat under last year's levels, increases of $600,000,000 in loans and investments of the weekly reporting member banks over a year ago, and of $79,000,000 in total currency in circulation throughout the country, reflect largely the effect of net gold imports during the past year amounting to $81,270,000.

Conditions in Agriculture

According to the price tables the agricultural staples have a lower purchasing power in relation to other commodities than one year ago, standing on October 15 at 130 in comparison with the pre-war level of 100, whereas one year ago they stood at 143. All commodities, including farm products, according to the Bureau of Labor price tables, averaged 150.5 in September, 1926, against 159.7 in September, 1925. The decline in cotton has been the principal factor in the decline of the farm group. Wheat at Chicago is about 5 cents per bushel, or 3.4 per cent under the price of a year ago, but as the wheat crop is larger by 174,000,000 bushels, or 26 per cent, the returns are much larger. Corn and oats in the Chicago market are about 5 cents above last year's prices, with slightly smaller crops. The Fall season has been very wet in the Middle West and grain in the fields has suffered some damage, but on the other hand pasturage is unusually good. Outside of the cotton situation we do not think that agriculture is in a worse position than a year ago; but agriculture has been at a disadvantage since 1919, and it is disappointing that after some recovery the industry as a whole should show lower returns than last year. The cotton situation is discussed at length below.

Record Breaking Cotton Crop

The sensation in agriculture this year has been furnished by cotton. The Government estimate of the crop, based on its reports as of October 18, is for 17,454,000 500-pound bales, which exceeds by 1,320,000 bales the largest cotton crop heretofore harvested. The estimate of October 1 was 16,627,000 bales and of the mid-September, 15,810,000 bales. The final estimate for the crop of 1925 was 16,103,679 bales and for 1914 was 16,134,930 bales. These three are the only crops in our history which have exceeded 16,000,000 bales. The Government figures are generally accepted without protest. The crop is known to have made decided gains in the latter part of the season and few close observers will be surprised if the ginnings reach 18,000,000 bales. Two more Government estimates are to come.

The net increase in this crop over last year's is nearly all furnished by Texas, which is estimated at 5,400,000 bales, against 4,165,000 bales finally reported last year. On these figures, Texas has gained 1,235,000 bales and the other states have made a net gain of less than 100,000 bales. The final estimate of the crop will be made in December.

The boll weevil has been a factor in the cotton situation of late years, making advance calculations more than ever difficult. In planning for the crop it has appeared that large allowance must be made for the depredations of the weevil, but in the last two years the insect apparently has done less damage, although the yield per acre is still below that of the pre-weevil period. The average yield per acre in 1926, according to the above estimate of

acreage and production, is about 176 pounds; in 1925 it was 167 pounds, in 1924, 157.6 pounds, in the five years, 1921-1925, 144.2 pounds, in the ten years 1900-1909, 184.9 pounds. The largest acre yield in the last named period was 205.9 pounds, in 1904. This year's big crop is the result of a combination of the largest acreage with favorable weather conditions.

The acreage, total yield per acre, and average farm price Dec. 1 in each year since 1912 have been as follows:

Year	Acreage Picked (thousands of acres)	Total Yield (thousands of bales)	Yield Per Acre (lbs.)	Farm Price as of Dec. 1st (cents.)
1926	47,207	17,454	177	....
1925	46,053	16,104	167	18.2
1924	41,360	13,628	158	22.6
1923	37,123	10,140	131	31.0
1922	33,036	9,762	141	23.8
1921	30,509	7,954	125	16.2
1920	35,878	13,440	178	13.9
1919	33,566	11,421	162	35.6
1918	36,008	12,041	160	27.6
1917	33,841	11,302	160	27.7
1916	34,985	11,450	157	19.6
1915	31,412	11,192	170	11.3
1914	36,832	16,135	209	6.8
1913	37,089	14,156	182	12.2

One year ago now the price of spot cotton in New York was approximately 20 cents per pound, and the low in the crop year was 18 cents, in June. In the latter part of September, as prospects developed for a 1926 crop of over 15,000,000 bales, the price declined to 15 cents and about October 1st broke through 14 cents. The estimate of over 16,000,000 bales carried the price down to 13 cents, and upon the estimate for over 17,000,000 bales it touched 12 cents. The present price is about the 1913 level.

An Increasing Carry-Over

The carry-over, or stock on hand at the end of the old crop year, is always an important factor in the situation. The carry-over of American cotton in 1921 was over 6,000,000 bales and at the end of the crop year 1921-22 was over 9,000,000. The acreage was sharply contracted in the last named year, but under the pressure of the heavy stocks the price dropped to 11 cents. In the three years following, crops were less than consumption, stocks were worked off and prices advanced, touching 38 cents per pound in 1923. The estimated carry-over of American cotton at home and abroad on July 31 of each of the last three years is shown below, the figures being from Hester, secretary of the New Orleans cotton exchange:

	1926	1925	1924
Southern mill stocks	659,000	400,000	306,000
Counted towns	596,000	145,000	177,000
Uncounted towns and plantations	1,294,000	214,000	167,000
Northern mill stocks	455,000	450,000	355,000
Stocks in interior and in transit outside South	218,000	81,000	....
All U. S. ports	462,000	212,000	223,000
European mill stocks	660,000	740,000	565,000
European port stocks	1,018,000	749,000	526,000
Total carry-over American cotton (including linters)	5,362,000	2,991,000	2,319,000

Adding this year's carry-over to the new crop gives about 22,800,000 bales available for the current year. Consumption of American cotton in the past year was about 15,250,000 bales, and at this rate the carry-over next July would be about 7,500,000 bales.

It is not difficult to see why the price has declined. It is evident that a considerable surplus exists above the probable demands of the coming year, and nobody wants to carry it without a rather definite prospect of an advance within a year or two sufficient to cover carrying charges, risks, and a probable profit. In other words, the price had to decline in order to afford an inducement to buyers.

The situation, however, is decidedly better than in 1921. Economic conditions are better the world over and the consumption of cotton goods is at a higher rate. Furthermore, the decline in price reasonably assures an increasing rate of consumption. The great bulk of cotton goods is sold the world over to people of low purchasing power, whose incomes have not increased since 1913 to correspond with the prices of cotton goods since then.

Curtailment Necessary

It is evident, however, that until world consumption is established on a higher basis, or some of the uncertainties which now attach to calculations upon both supply and demand are removed, this country should not go on producing 17,000,000 bale crops. An increasing carry-over from year to year means increasing dependence upon speculation, for it is speculation alone which affords a market for a surplus which possibly may not be needed for several years. There is wild talk about speculators forcing down the price, but in the presence of a big crop an absence of buyers will cause prices to fall. Cotton is a commodity which does not deteriorate in storage, it is a common necessity of world-wide demand, and with moderate price recessions dealers, manufacturers and speculators will carry a fair-sized surplus against the probability of future shortage, but an increasing surplus inevitably breaks the market.

Loan Facilities

Loan facilities of course are not a remedy for low prices, but they may be used advantageously in withholding the actual surplus from market until a short crop makes a demand for it. There is no lack of capital for carrying cotton on a safe margin, and the Federal Intermediate banks already in existence, and which may be organized under the law, afford all the machinery needed in addition to the regular banking facilities. New intermediate banks are being organized in several Southern states for the purpose. It is desirable that so far as practicable the sur-

plus shall be carried by the South, and by the growers themselves, first, in order that the benefit of price recovery, if it comes, may accrue to the growers, and, second, that they may have a greater interest in curtailment until the balance between supply and demand is restored. Loans will afford temporary relief, but are likely to prove unprofitable to both borrowers and lenders if another 17,000,000 bale crop is made next year.

The fact that a portion of the crop is withdrawn from sale will not, of course, eliminate it from the existing stock; it will hang over the market, but if its withholding is accompanied by assurance that the next crop will be reduced the effect will be to check the price-demoralization which otherwise would occur. Indeed this effect has been realized already.

It is more than probable that the acreage will be voluntarily reduced next year as the natural effects of a low price, and weather conditions may be less favorable, but in view of the present supply there is no reason to apprehend a shortage of cotton under any curtailment likely to be accomplished.

The Political Program

The opinion has been expressed that the low price of cotton will win the support of the South to the McNary-Haugen plan of government aid, but the latter would be even more impracticable as applied to cotton than to other products, from the fact that one-half or more of the cotton crop is exported. The McNary-Haugen idea is to dump the surplus abroad, advance the price at home by the aid of a tariff on imports, and assess the difference between the foreign price and the home price upon all producers, but there is no tariff on imports of cotton and the proportion of the crop sold abroad is so large that the benefits of the plan to the cotton-growers would be more than offset by the higher prices of food and feed which the cotton-growers buy. The production of corn, oats, butter, peanuts, rice, sugar beets, and even wheat, might be confined to the needs of the home market, but this is not so of cotton, and for this reason the cotton-growers have no common interest with the corn-growers or wheat-growers in that proposition.

The cotton situation is a clear case of an unbalanced relationship between supply and demand, just as the corn situation has been during the past year. The only practical remedy in either case is in bringing the situation back into balance. Nobody can do that but the producers, and low prices supply the motive for doing it.

It is sometimes urged in behalf of government regulation of prices or production that the farmer is unable to definitely calculate production and is under an obligation to provide a surplus in order that there may be a sufficiency. The large cotton crops in 1925 and 1926 may seem to give some support to this argument. It is true that the boll weevil has been a particularly confusing factor in cotton production, but the fluctuations of production are most troublesome to the one-crop farmer, and the cotton farmer sins in this respect. It is seldom that all crops are short or in over-production together, or that all farm products are either high or low together. Diversification minimizes the possible losses either by crop failure or low prices, and enables the forehanded farmer to carry his own surplus when he has one and adjust his own production from year to year accordingly. The South has had much agitation on the subject of diversification and in some sections other crops are gaining upon cotton. On the whole, however, it seems to like the excitement of having big stakes on cotton. Secretary Jardine commenting upon the present situation:

> In ten important Southern States, acreage increased from 30,000,000 in 1909 to 46,000,000 this year. In the same 17 years, land planted to corn decreased from 30,000,000 to 24,500,000, small grain acreage decreased 2,000,000, while the number of swine diminished from 14,800,000 in 1920 to only about two-thirds of that number in 1925. A sound and permanent program calls for fewer acres and more cotton to the acre, more livestock and greater crop diversification.

The Cooperative Associations

The cooperative farmers' cotton associations which have been operating in the Southern states for several years show little sympathy with agitation for conventions, appeals to Washington and numerous political measures for relief. The Staple Cotton Cooperative Association, representing several state associations, has issued a statement in which it says, in part:

> The problem is a combined one of financing and marketing. There is ample credit available through the commercial banks and the Federal Intermediate Credit Banks, if the cotton growers were so organized as to use it. But like capital for all other lines of business, it is available only under proper conditions of administration and on a conservative basis of credit. The situation cannot be saved by political vagaries or maudlin appeals to public sympathy.
>
> After five years of persistent effort, only 1,481,529 bales of cotton were handled by farmers co-operative marketing associations last season, out of a total crop of more than sixteen million bales. Less than 10 per cent of the entire production was handled upon a basis of organized industry. It will require more than a sporadic convention of a handful of growers, guided by politicians and outside interests, to meet the situation. Why call a meeting to organize marketing and financing machinery for the present crisis, when there are already sixteen thoroughly organized and established co-operative cotton marketing associations in active operation, recognized by banking institutions of the country and ready and able to finance every bale of the present crop. Why harp on the matter of finding the necessary funds, when the facilities of the greatest banking houses of the country are at the command of the cotton growers who are willing to join these marketing associations. Why make a futile appeal to the Secretary of Agriculture for government aid, when an established Governmental agency, the Federal Intermediate Credit banking system, is prepared to

extend to organized cotton growers hundreds of millions of dollars upon the same terms as capital is available to other business interests by other banking institutions. Why talk about creating overnight pools to handle this crop, when the pools are already here?

If the Southern cotton growers were handling their cotton through their own marketing and financing organizations, they could handle their own problems in their own way. There is at least one such organization actively functioning today in every Southern state. Its outlets and markets are already established. Its financial connections are already made and tested by experience. Its set up and personnel are already proven. It has its known places of business. It is founded upon a daily and a yearly need and is not the temporary creature of a panic. Its doors are as wide open as are the doors of the Church, and just as easily entered.

There will be dozens of conventions held by the farmers' political and professional friends. Every conceivable economic nostrum will be offered as a palliative. Hundreds of resolutions will be adopted. But the cotton grower's salvation is in his own hands. If it were announced today that the Southern farmers had at last seen the light and had put their cotton into the hands of their own marketing associations, it would have a more stabilizing and heartening effect upon the situation than will come from all the conventions that will be held in a hundred years.

This statement is from farmers of high standing in the states where they live and who have had several years of practical experience in the market and in the use of banking facilities.

The Grains

Exports of wheat from this country have been heavy and reports of European grain production show moderate downward revision. The latest advices to our Department of Agriculture make the European crop, excepting Russia, lower than last year, on wheat by 158,000,000 bushels and on rye by 137,000,000 bushels. The potato crop also is below last year's. Russia is shipping considerable grain, but reports as to amount available are conflicting. The readiness of European importers to buy on this side despite rising freight rates indicates that they are not counting on Russia as a dependence.

All ocean freights have been advancing rapidly on account of the demand for ships for carrying coal to Great Britain, and are approximately double what they were a year ago. As high as 30 cents per hundred pounds, or 18 cents per bushel for wheat, has been paid from New York to Antwerp and Rotterdam and 40 cents from Montreal to Hull, England. Inasmuch as charges from Buenos Aires have advanced in like proportion, these increased charges have been added to the cost of grain on the other side.

The crop in the Canadian northwest is said to have suffered considerably in grade by exposure to the weather. News from the southern hemisphere is now of growing importance. The Australian acreage is larger than last year and the talk is for 40,000,000 to 50,000,000 more bushels for export. The outlook in Argentina has been favorable, but in both countries the crop has numerous hazards to pass before harvest.

The October estimate on the corn crop is approximately 2,700,000,000 bushels, which is about 200,000,000 bushels under last year's crop and 150,000,000 under the five year average. The stock of old corn to be carried over is larger than usual, and is thought to make as many bushels available as last year. The stocks in Chicago on October 16 aggregated 18,400,000 which compares with 3,800,000 bushels at the corresponding date last year, and receipts are liberal, indicating good supplies back in the country. Corn for May delivery in Chicago is about 6 cents per bushel above that delivery one year ago. Hog cholera is prevalent in the corn belt, and the losses are heavy enough to affect the price of corn. The Kansas City-Telegram reports a sale of stock hogs at the Kansas City yards at a premium of 75 cents per hundred weight above the market, on the strength of being inoculated with the anti cholera serum. The demand for serum has exhausted stocks.

The oats crop is 230,000,000 under that of 1925, but only 45,000,000 under the five year average. Stocks in sight are lower than a year ago. Exports since July 1st have been negligible, but prices at Chicago are about 5 cents per bushel above a year ago. The quality is not first class, which has had some effect upon the price.

Live Stock

Hogs are still bringing good prices and yielding excellent returns for feed and care. They still have far the best of the hog-corn equation and this seems likely to be the case for another year.

The average price of all beef steers sold out of first hands for slaughter in Chicago during the week October 11-16 was $9.92 per cwt., against $10.96 in the corresponding week of 1925. Shipments of unfinished cattle into the corn belt states in the first nine months of this year were a little less than in the corresponding months of 1925 and the smallest since 1921. Notwithstanding the fact that many finished cattle have realized losses for their feeders this year, the prices of stocker and feeder cattle at the principal distributing markets have averaged consistently higher than last year, indicating that feeders are not going out of business. The Kansas City Telegram records the sale of 1,000 medium-weight feeders in one lot at $60 per head. Yearling beeves are in strong demand, topping the market.

Wage and Price Tendencies

The decline in the past year of the price of farm products in relation to other commodities, as reported by the government statistical bureaus, raises a question as to the wisdom of the continuing efforts to advance wages in the other industries.

In Chicago the construction trades obtained wage increases on October 1st ranging from 2½ to 12½ cents per hour, carrying common labor to 90 cents per hour and carpenters and other trades in their groups to $1.50 per hour. Coming at a time when the cost of house-building and all constructional work is likely to be more carefully figured than has been the case in recent years, these advances may produce an amount of unemployment which will more than offset the gains expected. At the recent convention of the Federation of Labor in Detroit, the Secretary-Treasurer of the building trades reported that all contracts with employers which expired in May and June had been renewed and most of them at an increase over the previous year. He said:

> The building trades have no desire to retard building, but they are going to hold their ground and maintain to the utmost of their ability the wage scales and conditions which have required so many years and hard efforts to obtain.

The fact is that the failure to do the normal amount of building and constructional work during the war caused an accumulation of such work and created a strong competition for the services of the building trades during the last four years. This situation has made it possible for the owners of property to obtain rents high enough to produce returns upon even the high costs incurred for new buildings, and perhaps amortize a part of their investments, but there is no certainty that such rents or values are permanent.

The same official went on to say:

> Wage reductions are out of the question. Those interests which are clamoring to reduce wages or opposing reasonable wage advances appear to fail to take into consideration that all of the construction work which is now in progress or which was constructed during this period of prosperity would be immediately brought down to the level of cheaper construction if wage reductions and low labor costs were to prevail.

The latter statement is true, but does not prove the first. Building operations have been under an abnormal stimulus, as attested by the various devices by which contractors have competed with each other for workmen, and such periods of unusual stress come to an end in the building field, as in other fields of investment and speculation, when production overtakes demand and production costs rise above the general level of wages and prices. This is the common history of periods of unusual expansion. Agriculture was very much stimulated during the war by the high prices prevailing for farm products; land values advanced and for a time nobody under the influence of the prevailing "prosperity" would listen to the suggestion that prices might fall, but the building trades might learn something to their advantage by taking testimony in the western farming districts now. The illusion that boom conditions are permanent, and the disposition to build upon them, are what cause the business cycle, with inflation, free-spending and debt-making at one end and deflation, bankruptcy, depression and unemployment at the other.

Influence of the Building Situation on Other Industries

Shortage of housing accommodations and the high cost of building, the latter due to the pressure to accomplish an extraordinary amount of constructional work in a limited time—has compelled wage increases in all the industries and all lines of business to cover the high rents which wage- and salary-earners have been obliged to pay. Furthermore, the wages of the building trades are cited in all the industries as constituting a standard which should be generally adopted.

The big four railroad brotherhoods are now asking an increase of 20 per cent on all the railroads east of Chicago, and arbitration proceedings under the Watson-Parker Act are now going on in this city. The wages of these employes were reduced about 12 per cent as the result of proceedings before the former Railroad Labor Board in the latter part of 1921, but subsequent advances have restored the greater part of the reduction. Mr. Sheppard, President of the Order of Railway Conductors, presenting the case a few days ago on behalf of his organization, is reported in part as follows:

> The basic hourly rate of conductors dropped from 80.5 cents in 1921 to 77 cents in 1926, a loss of 3.5 cents an hour, while other trades have had wage increases. As compared with other trades, conductors, it was said, were poorly paid. Hourly rates, according to the United States Bureau of Labor Statistics of building trade workers were as follows in 1926: Bricklayers, $1.565, an increase of 37.1 cents since 1921; laborers, 85.1 cents, an increase of 9.1 over 1921; carpenters, $1,267, an increase of 21.6 cents; cement finishers, $1.321, an increase of 22.4 cents; hod carriers, $1.02, an increase of 13.2 cents; painters, $1.305, an increase of 22.7 cents, and plasterers, $1.595, an increase of 37.5 cents.

All of these citations, it will be seen, are from the building trades.

Mr. Doak, Vice-President of the Brotherhood of Trainmen, presenting the case of his organization, reported as follows, in part:

> He said he would "leave to the conscience and pocketbook of each member of the board whether or not there have been increases in prices of necessities, and to what extent." Rents, he said, had doubled and trebled in New York City until they were now so high that no trainman could afford to live inside the city limits, and the same held true for most urban centers of the East.

The Secretary-Treasurer of the Building Trades Department of the Federation of Labor, in his report at Detroit, said:

> There are today nearly 1,000,000 organized workers in the building industry of this country. What they receive in wages and spend for the necessaries and luxuries—yes, we enjoy some things that were formerly termed luxuries—are a big factor in keeping the wheels of other industries moving, thus adding to the general prosperity of the nation.

The statement by Mr. Doak sheds some light upon who are furnishing the purchasing power which pays for the good things which the building trades are enjoying. Railroad men are not affected more than other people, and what he says is enough to show that this question of the "standard of living" is to be considered as well from the side of those who pay as from the side of those who receive.

The application of the railroad men for more pay is under arbitration and entitled to a careful, impartial hearing. We do not care to discuss their claims beyond a few comments upon the general situation. Mr. Doak says that it is important to have a contented body of railroad men, which of course is true. It is important that the building trades be contented also, and the farmers, school teachers and "white collar" workers as well. They all belong in the picture, all have claims to fair treatment, and it is impossible to justly determine the claims of any group without considering how all the other groups will be affected. The best hope of securing general contentment is by an honest effort all around to understand how one's own claims affect other people.

Throughout all the employments of our highly specialized industrial system, individuals while nominally working for employers, in reality are exchanging services, and whether wages seem to be high or low depends upon the relationships—whether the exchange of services is on a fair basis. It is impossible to contend that a railroad engineer or conductor is not entitled to as much pay as an unskilled laborer in the building trades, but according to representations in the present hearing, he does not receive it. This, however, does not close the case, for there are other people whose rights are affected.

Position of the Farmers

It is agreed that the higher wages in the building trades have been passed on as charges to the people who occupy the houses, and for now more than five years bitter complaint has come from the farmers that the higher pay of railroad and factory employes, and of all the other residents of towns and cities, were being passed on as charges upon them, in so far as they were buyers of transportation or consumers of town-made goods.

Official figures show that throughout the industries, including transportation, wages have advanced since 1913 by a higher percentage than the cost of living, and the rise of the cost of living is all in the higher wages paid in production, transportation and distribution. That is to say, part of the higher wages have been neutralized by improvements in organization, methods and machinery.

Upon the average computed by the Department of Agriculture, the farmers are now selling their products, consisting of food stuffs and raw materials for the industries, at about 30 per cent above pre-war prices, while wages average over 100 per cent above the pre-war level. An official farm publication, stating that Iowa is the center of a low price area, has compared the prices of farm products with the wages of factory employes as follows:

Date	Prices paid to Iowa farmers prewar = 100	Wages of factory workers prewar = 100
1921	102	203
1922	106	197
1923	113	214
1924	121	218
1925	142	223
August, 1926	129	227

The latest farm product to suffer is cotton, which is not a product of Iowa, but which is now selling at approximately the average price of the five years, 1909-13. The production of cotton is the leading industry in a dozen states. This clothing material, which enters into the daily use of all the wage earners in the land, is being supplied by the producers on the pre-war basis, while for the labor entering into the factory goods which he buys he must pay on the average more than double pre-war rates. It is true that the public, including wage-earners, pay much more than pre-war prices for cotton goods, but that is because cotton-mill operatives in New England are receiving 120 to 140 per cent higher wages than before the war and even in the South, where wages always have been lower, mill employes are receiving 90 to 100 per cent more than before the war. Mainly as the result of the decline in raw cotton the price of cotton goods has declined on the average about 21 per cent since November 1, 1925.

The question at the moment agitating the farm population is whether in considering the proper compensation of railroad employes it will not be just as reasonable to take account of the compensation of farmers as of the pay of the building trades? The number of farmers is several times that of all the building trades and railroad employes combined, in fact with their families approximates 30 per cent of the entire population. In view of the inferior position which they have occupied for now five years, what argument can be given for placing additional burdens upon them in order to raise the highly organized trades to higher rates?

Effect of General Wage Advances

The labor organizations have expressed a friendly interest in the prosperity of the farmers from time to time, and manifested a willingness to cooperate in defeating political candidates regarded as "unfair" to labor. They are said to be on record as in favor of relief legislation for the farmers, although of course they reserve the right to ask for further wage

increases to cover any increases that may occur in the cost of living. Of course there can be no rise of farm products which does not increase the price of living. The essence of the farmer's grievance is that the things which he must buy are disproportionately high in comparison with the things he has to sell. There is no relief for him except in changing the exchange relationship.

There is confusion because people think in terms of money wages, without taking account of changes in purchasing power or the intimate relations between the industries. It is of great importance that real wages, as measured by the standard of living, shall be always rising, but this is not accomplished by wage-advances which are passed on to consumers. It is accomplished only by increasing the output of the industries, so that more is available to everybody at no greater labor cost than the former supply. Attempts to improve the general position of labor by pushing up wages by groups is simply a game in which the groups most favored by conditions—as the building trades have been since the war, and other trades may be by superior organization or command over public necessities—win at the expense of others less favored but possibly in greater need and rendering services no less exacting or important.

The argument that money wages must be increased in order that an increased production may be consumed is a fallacy, because a broader increase of purchasing power results from a reduction of prices, which releases purchasing power to the entire population at one stroke.

A similar fallacy runs through all the theories to the effect that artificial means of some kind must be adopted to make distribution keep pace with production. Consumption will keep pace with production if industry is kept in balance, so that the exchanges are readily made. Various causes tend to throw industry out of balance, but war outranks all the rest. Certain trades and employments gained advantages during the war which they seek to retain and even increase, but in the long run even they will be benefited by fair readjustments which will promote general and enduring prosperity with full employment for all workers.

The Trend of Real Wages Certainly Upward

There are the best of reasons for believing that the trend of real wages in the future will be steadily upward, whether money wages advance or not. Money wages may or may not continue to rise—probably will rise to some extent—but if they do not, the distribution of increasing production will take place through lower prices. The relations between the industries will change as new industries rise and methods of production change. New industries which must attract a labor supply, must pay wages that will do it, as the automobile industry was obliged to do.

A fundamental fact is that the progress of industry never was so rapid as in the present, for the range of scientific research never was so great. All of the great industries have trained staffs studying how their processes may be improved and costs of production reduced. Every scientific discovery opens a new field of knowledge of limitless possibilities in the industries. The industries are changing with a rapidity unequalled in the past. Machinery is lightening the burdens of human labor and multiplying the products. The certain effect of all this is a downward trend of prices, except in the industries where these gains are offset in production-costs by higher wages. Where the gains become effective in prices, uniform wage rates will give constantly increasing purchasing power. Despite the fact that the trend of money wages has been upward rather than downward in the past year, the index number of the Bureau of Labor price tables for September, 1926, was 150.5, against 159.7 in the corresponding month of 1925, and the trend in Europe was in the same direction.

The recovery of industry in Europe and the restoration of currencies to the gold basis mean increasing production and more orderly trade, the influence of which will make for lower prices. The days of easy nominal profits through rising prices are over, and in the future every business must expect to undergo the competitive test on its merits.

In addition to these influences it is to be considered that a powerful agency which before the war was making steadily for higher prices has ceased to be effective. The production of gold was increasing steadily and rapidly in the twenty years preceding the war, reaching the maximum world output for all time in 1914, at $470,000,000. This flow of gold into the banking reserves, which was a constant influence for higher prices, has been curtailed by the rising costs of mining operations. Production has declined to $400,000,000 per year, and is more likely to decline farther than to increase.

These conditions will not work to the disadvantage of the wage-earning class. A rising scale of prices, such as prevailed over the period from 1898 to 1913 makes it necessary for the wage-earner to be continually getting more money-wages to even hold his own in purchasing power. On the contrary, a declining scale of prices means that the purchasing power of the same wage is steadily increased without effort on his part, and that the results of increased productivity in the industries are promptly distributed far and wide.

With a general understanding of this truth throughout all groups and classes, and co-

operation to maintain stable and harmonious relations, the industrial organization of this country will far outdo all past accomplishments for the general welfare.

Foreign Affairs

In Great Britain the coal strike, which now has lasted six months, is the dominating factor in the business situation, but the miners' organization is disintegrating, approximately one-fourth of the men having returned to work. Coal importations are on a large scale, and the prospects are for a general resumption of work at no distant day. The strike was contrary to the counsels of the most experienced labor leaders, who recognized that it was an attempt to defy economic conditions.

The mines were kept in operation from August 1, 1925, to May 1, 1926, by means of a Government subsidy, but three-fourth of the coal mined in that time was sold for less than cost. Obviously it was necessary for the industry to adjust itself to the conditions, but the fear that if a concession was made it would never be rescinded prompted the unions to resist. An unhappy alliterative slogan, "not a penny off the pay, not a minute on the day," may have helped to keep up their fighting spirits, but if so, it only furnished another illustration of the futility of a flow of words in dealing with economic facts. The fundamental economic fact is that the rise of the British currency to the former gold par meant that a different yard stick of values went into effect, requiring a general lowering of prices. The cost of all imported goods declined, which tended to place the industries in a better position and lower living costs, but the prices of industrial products and of all costs entering into them were subject to the similar reductions.

The miners refused to accept this readjustment of currency values, and have lost six months wages in consequence, besides inflicting enormous losses upon the country.

The final defeat of the strike was made certain by the refusal of the recent Labor Party Conference to sanction a general assessment on all trade unions for the support of the miners or to lay a boycott on handling imported coal. The remarks of two well-known labor leaders, Mr. Thomas and Mr. Tillett, revealed some striking facts as to the position in which their unions have been left by the general strike. Mr. Thomas said that he would tell them why his union, the biggest of all, could not pay any levy. They had 45,000 men who had not gone back to work since May 1st, and 200,000 men who were working three days a week. The engineers were taking a ballot as to a levy for their own unemployed; and 45 per cent. of the boilermakers were still out of work. To this Mr. Tillett added that the Transport Workers had already spent £1,000,000 ($5,000,000) on this dispute; they were £500,000 ($2,500,000) in debt; and they had sunk all their funds in the dispute. They had 80,000 men unemployed and 100,000 under-employed. Sixty per cent of the dockers were unemployed, and another 20 per cent were under-employed. This state of unemployment had been forced by the scarcity of coal for the industries.

Conditions in Germany

Economic conditions in Germany, Poland, Belgium and Luxemburg have been very much improved by the cessation of coal mining in Great Britain. The mines of all these countries have been operating to capacity and previously accumulated stocks have been cleared away. Railroad earnings have increased and the whole industrial situation has been toned up. For the first time since the war German coal production is above the pre-war record. Of course this cannot be regarded as permament business, but the German mines have improved the emergency to insist upon long term contracts with former British customers wherever conditions enabled them to do so.

The enforced shut-down of British iron and steel works for want of coal has played into the hands of their continental competitors in like manner. The new agreement apportioning production on an agreed basis among the continental producers has strengthened prices and imparted a more hopeful feeling than has prevailed for more than a year.

While the improvement in Germany has been most marked in the industries stimulated by the scarcity of coal in England, the influence of this stimulation is seen to some extent throughout the industries. Building operations are on an increased scale, the number of publicly supported unemployed declined from 1,594,000 on September 1 to 1,395,000 on September 30, bankruptcies have fallen off, bank deposits have increased and new industrial plans of importance have been announced. The balance of foreign trade has been in favor of Germany in every month of this year, excepting June and July, and Government revenues have kept ahead of expenditures notwithstanding a considerable cut in taxation last Spring.

Italian Currency Stabilization

In Italy the Government closed its fiscal year ended June 30 with a substantial surplus of revenues over expenditures, and was encouraged to take a pronounced step to raise the value of the currency which had suffered depreciation since about the beginning of last April. The Government has been for several years indebted to the Bank of Italy in the sum

of about 6,800,000,000 lire, which it received in the form of bank notes and paid into circulation. It has undertaken to pay off the bank with the purpose of having this amount of currency retired and as a beginning conveyed to the bank the remaining proceeds of the American loan of last year, valued at 2,500,000,000 lire. The ministry of finance will enter 500,000,000 lire per year as a debit item in the regular budget, to be applied upon the balance of the debt, thus extinguishing it in nine years.

The monthly survey published by the American Association of Italian Corporations, in its issue of October 1st, says of this action:

> Only a strong Government, sure of the support of the Nation, could take such a step with the difficulties and momentary hardships which it entails. The Fascist Government knows that it can safely count on that support. The business world realizes the inevitable difficulties placed in the way of industrial production by deflation, but it also realizes that it is essential that the currency be a fixed and reliable measure of values, subject neither to depreciation nor to revaluation, and it accepts and cooperates with the policy.

If the Italian Government is able to carry this plan through successfully, maintain the budgetary balance and stabilize the currency without labor troubles or popular protests, it will have given a remarkable demonstration of its strength with the Italian people, and of the spirit of unity, patriotism and resolution animating the latter.

This action providing for a contraction of the volume of the currency and an enhancement of value, has been closely watched from the outside for its effect upon the Italian industries. The influence of currency appreciation in causing the coal strike in England is referred to above. Upon the possible effect in Italy the Italian review says:

> As clearly foreseen these measures have necessarily reacted rapidly on the general economic situation. On the one hand the lira has gained many points on the international exchange markets; but on the home stock-market there has been a general decline, affecting both government and industrial securities. Here the tendency is to discount rapidly the necessarily slow process of revaluation, and while the wholesale price index shows so far no marked tendency to decline, a glance at the stock exchange quotations which we give on another page shows a rapid fall in all securities. In the case of government bonds the decline is undoubtedly temporary, as revaluation of the lira must necessarily increase their value, but profits realised largely as a result of currency depreciation are destined to disappear now that the process has been reversed. * * * Meanwhile the industries maintain a fairly steady level of prosperity. There is some depression but no crisis.

The India Report and Silver

The price of silver, which was about 63 cents per ounce in New York at the beginning of August, prior to the publication of the report of the Indian monetary commission, declined by successive drops to a low of about 51½ cents in the past month, and since then has recovered about 2 cents. In the opinion of people close to the situation, while the commission's recommendations have been an element of weakness, the principal cause has been the sales of silver from China. Trade conditions in China are seriously affected by the civil war, stocks of silver have accumulated at the ports, and in the absence of demand for the interior, exports have been made to London. It is extraordinary to have silver exported from Asia, and the movement is especially depressing in view of the bearish feeling developed by the Indian report.

The London Financial Times, a publication whose editor is the Rt. Hon. E. Hilton Young, who served as Chairman of the late Royal Commission on Indian Currency and Finance, in a recent number has an editorial in which the opinion is expressed that certain misconceptions about the recommendations of the Commission relative to silver prevail in the United States, to wit (1) that "a slow demonetization of silver will result from the proposal that the coinage of silver shall be stopped for a long time to come until the amount of silver in circulation is reduced to the amount required for small change, and (2) that the Commission's recommendations involve the sale of 250,000,000 ounces of silver in ten years."

The editorial comment upon the first quotation is as follows:

> As recently pointed out, the stoppage in the coinage of silver does not result from any recommendation of the Commission. The Government of India had 90 crores of surplus rupees when the Commission was constituted. The stoppage is the result of the vast supplies of silver rupees that had to be put into circulation during the war. To refer to the amount required "for small change" in India is misleading. The rupee is, and is to remain, the only metallic currency. For generations to come it may be expected to be required, not only as small change, but as a principal medium of exchange.

This is quite definite as an expression of the opinion of the Chairman of the Commission. Evidently, he holds that the people of India will be slow to abandon their preference for the silver rupee as the money of common circulation. As to the "misconception" prevailing in the United States, however, it would appear to be partly justified by the following language, on page 29, volume I, of the Commission's report:

> Our recommendation implies that the coinage of silver rupees should be stopped for a long time to come, until the amount of silver rupees in circulation is reduced to the amount required for small change.

It is true that the report of the Commission has not been translated into law, and probably it is also true as the Chairman seems to assume, that the Government of India will continue to coin rupees as long as the public expresses a preference for that form of currency. The Commission recommends that no legal obligation to convert paper currency into silver rupees shall attach to new issues of currency, but advises that facilities for such

conversion shall be afforded as long "as the public desires to obtain silver rupees."

As to the second "misapprehension," the report says, paragraph 80:

We therefore make a recommendation (paragraph 145 below) which will have the effect of ensuring the gradual reduction of the silver holding in the Reserve, during a transitional period of 10 years, from the present figure of Rs. 85 crores, to Rs. 25 crores on the basis of the present circulation.

The Chairman's comment upon this is that—

the recommendations provide for the avoidance of any such sale by the absorption of surplus silver into circulation in the normal course of expansion of trade.

It is obviously true that if in the course of ten years the surplus reserves of silver above 25 crores have been absorbed into circulation by the growing volume of business there will be no silver for sale. According to the Chairman this is the expectation of the Commission.

It is clearly true that the Indian government's present reserves of silver are unnecessarily large. They must be regarded as resulting from the extraordinary purchases of the government under the Pittman Act. With the lower level of prices now prevailing less currency is needed in circulation and it accumulates in the reserves. Unless there was a prospect of its reabsorption into circulation within a reasonable time, the government naturally would want to dispose of it, but it may be regarded as quite probable that no sales ever will be necessary.

The London Financial News, another financial journal, expresses the opinion that the importance of the Indian Commission's recommendation as to silver has been exaggerated. It does not believe that a paper currency can be substituted for the silver currency to which the people of India have been so long accustomed, but holds that if accomplished such substitution will be a very slow process and that the increasing currency requirements will be likely to neutralize in whole or in part the effects of whatever substitution occurs. This view seems to be concurred in quite generally in circles well informed upon India.

Sugar Outlook More Favorable

With the approach of the sugar grinding season there are a number of signs definitely pointing to an improved outlook for the industry. The large production of last year has moved rapidly into consumption and the carry-over of old sugars into next season will be much smaller than had been generally expected.

On October 20th Cuba was struck by a tropical hurricane, causing approximately six hundred deaths and a property damage conservatively estimated at $75,000,000. The storm area, roughly 10,000 square miles, centered in the Provinces of Havana and Matanzas, and extended over into the adjoining Provinces of Pinar del Rio and Santa Clara. Throughout this territory the growing cane was damaged by wind and perhaps one-third, or 270,000 tons, will be lost. About sixty centrals are located in the area and all have been more or less affected, but none to such an extent that they will be unable to grind this season. In addition, the storm injured dwellings, warehouses, ships and wharves, and other property in the cities. The eastern section of the Island escaped.

The first estimate of world production for 1926-27 prepared by Messrs. Willet & Gray, sugar statisticians, has just been issued and indicates a total prospective yield of 24,279,000 long tons, compared with a harvest of 24,375,813 last year. These estimates were prepared in advance of the hurricane damage, and it is interesting to note that even before the destruction wrought by the storm, the prospect was for a reduction in the world crop for the first time in seven years, or since 1919-20. Following is a condensed summary showing last year's production in the leading countries and the percentage of the total contributed by each, together with the estimates for the coming year, the original Cuban figure having been corrected by the 270,000 tons probable storm loss.

WORLD SUGAR PRODUCTION
Long Tons (2,240 lbs.)

	—1925-26—		—1926-27—	
	Harvest	%	Estimate	%
Cuba	4,884,658	20.0	4,930,000	20.5
British India	2,923,000	12.0	3,000,000	12.5
Java	2,278,900	9.3	1,936,000	8.1
Hawaiian Islands	705,350	2.9	714,000	3.0
Brazil	650,000	2.7	700,000	2.9
Africa	679,042	2.8	640,000	2.7
Porto Rico	544,484	2.2	530,000	2.2
Philippine Islands	425,000	1.7	500,000	2.1
Formosa and Japan	498,460	2.1	450,000	1.9
Argentina	395,733	1.6	440,000	1.8
Australia	522,344	2.1	425,000	1.8
San Domingo	354,720	1.5	335,000	1.4
Peru	265,000	1.1	275,000	1.1
Other Countries	976,757	4.0	925,000	3.9
Total Cane	16,103,448	66.0	15,800,000	65.9
Germany	1,595,545	6.6	1,800,000	7.5
Czecho-Slovakia	1,485,031	6.1	1,200,000	5.0
Russia and Ukraine	1,041,903	4.3	1,000,000	4.2
United States	804,439	3.3	860,000	3.6
France	756,038	3.1	700,000	2.9
Poland	590,000	2.4	600,000	2.5
Holland	303,365	1.2	300,000	1.2
Spain	243,939	1.0	300,000	1.2
Belgium	332,170	1.4	280,000	1.2
Italy	162,000	0.7	270,000	1.1
Other Countries	957,935	3.9	899,000	3.7
Total Beet	8,272,365	34.0	8,209,000	34.1
Total Cane & Beet	24,375,813	100.0	24,009,000	100.0

It will be observed that the total estimated cane crop shows little variation from last year's harvest, the increase in the Cuban production being offset by a similar decrease in Java, and the changes in other countries practically balancing one another. The total beet sugar estimate is down only slightly from last year but the report is featured by a possible 205,000 ton gain by Germany, which is rapidy regaining its pre-war position in the industry, and a

gain of 108,000 tons by Italy, largely due to the reimposition of the tariff removed in the preceding year. Czecho-Slovakia, the most important exporting country of Europe and the third most important in the world (Cuba and Java excepting), shows a considerable falling off and the French and Belgian crops will be somewhat smaller.

In the United States the beet-slicing season is now in full swing and the output is expected to exceed last year's but not to come up to the record of 974,185 tons achieved in 1924-25, which, it will be recalled, was under the stimulus of quite profitable prices as contrasted with the depressed level of the past year.

It appears, therefore, that at the present time the balance of supply and demand may be swinging more definitely in favor of the producer. One year ago the unprecedented Cuban crop that was forecast caused a sharp break in prices to below the cost of production. In order to relieve the situation in some degree the President of Cuba, acting under special authority granted by the Congress, issued a decree which curtailed the production from the early estimates of around 5,400,000 to 4,884,658 tons.

Meanwhile the low price has caused the commodity to move freely into the hands of dealers and consumers. The consumption of sugar is constantly growing and in the United States is truly remarkable, amounting on a per capita basis to 94.6 pounds annually in 1923, 99.9 pounds in 1924 and 107 pounds in 1925. The present state of prosperity in this country has sustained the demand for sugar in all forms, particulary in ice cream, soft drinks, etc., and for canning this year's fruit crop, which was an abundant one at comparatively low prices.

Prices have been steadily working toward higher levels and are now around 2.75c for raws in the New York market, before paying the duty of 2.206c (1.7648c for Cubas) which compares with a low of 1.94c touched a year ago, and are near the highest for nineteen months back.

The reduction in estimated world sugar production for 1926-1927 and the further loss resulting from the hurricane have caused many authorities to feel that the outlook for prices is stronger than it has been for some time. They point out that the actual out-turn of Cuba, the largest single producer, is problematical, for while the corrected estimate given above is for 4,930,000 tons, it was recently decreed by the President of the Republic that grinding could not begin until after January 1, which will mean that the first raws will not be available in this market until the middle of January, thus giving the trade an extra month in which to dispose of the so-called old sugars. Furthermore, although no definite announcement has been made, there is the possibility that as the season progresses the Cuban Government may decide to limit production to a certain percentage quota as was done last year.

The Bond Market

Although subject to the retarding influence of higher money rates during early weeks of the month, the bond market during October gave a good account of itself both from the standpoint of prices and of absorption of new offerings. The volume of new offerings during the month was well maintained and many major issues enjoyed heavy oversubscriptions, indicating that the absorptive capacity of the market is just as great as ever. The year 1926 will perhaps hold the record for all time in the creation of new wealth. Much of this must find permanent employment, either through direct investment in bonds or indirectly through bank deposits, insurance assets, etc. While the volume of financing during the year has been heavy and will perhaps reach a new high record, the situation is healthy, because American investing capacity is enabling this country to absorb securities in constantly increasing amounts.

While the trend of bond price averages earlier in the month was downward, the greater activity during later weeks, resulting from easier money rates, brought the averages back to levels well above those of September. The Dow Jones average for forty listed Domestic corporate issues, (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on October 25th was 95.08 as compared with 94.89 on September 25th and 92.26 on October 24th a year ago. The high point in this average for the present year was reached on June 12th when it touched 95.52. On October 4th it had dropped to 94.69. Recovery since that time, however, brings the present average back to within .44 of the year's high and about 1.65 above the average at the beginning of the year. With good foreign bonds pursuing an almost uninterrupted upward course during the period when the rest of the market was soft, and with the average in this group now at or near the year's high, it seems a safe conclusion that the level of bond prices generally is considerably better than the Dow Jones average for corporate issues alone would indicate. There is little in the business situation which might lead to substantial hardening of money rates in the near future, nor is there a sufficient volume of new issues in prospect to exert any depressing effect on the bond market. The present outlook seems favorable for the continuance of activity at or around present levels.

United States Government Bonds

Moving in sympathy with an easier money market, United States securities developed

buoyancy and at the present writing several issues are approaching their high points for the year. On October 25th the Liberty 3rd 4¼s sold at 101-5/32 and the Liberty 4th 4¼s at 102-14/32. Long term Treasury 4s reached 104-2/32 and Treasury 4¼s reached 108-1/32. Most issues were well within half a point of the year's record prices. While the upward trend was due principally to heavy institutional investment buying, continued purchase by the Treasury Department for sinking fund purposes was also somewhat of a supporting factor. It is particularly noticeable that the main pressure now seems to be on the buying side, in distinct contrast to conditions last month when tendencies were more toward liquidation.

Municipal Bonds

The general scaling down in Municipal prices during the past six weeks, particularly in the higher grade issues, has brought the market to a level where a firm undertone has developed in response to broader retail distribution. The offering of a substantial block of State of Missouri bonds on a 4.15 basis establishes a new price level for high grade state and municipal bonds which in comparison to prevailing levels in other investment groups makes such issues appear unusually attractive. Due to a combination of circumstances, municipal prices during the year have not advanced proportionately with other bonds and today are further from the high levels of twenty-five years ago than the bonds of any other investment group. Although tax exemption has lost some of its value with the reduction in Federal Income Taxes, this is still a factor of importance to investors in the higher brackets. The revival of spirited bidding by dealers for new issues at present market levels would indicate a general conviction that conditions are now favorable to a price movement on the up side. The leading offering of the month was a $25,000,000 issue of the City of Philadelphia 4¼ per cent Bonds which were sold to yield 4.17 per cent to the optional maturity date.

Railroad Bonds

Continued good earning reports on the Class 1 railroads caused active buying of railroad issues generally, with the upward movement most pronounced in the second grade issues whose market position is always more dependent upon current operating results. Several issues reached record post-war levels. St. Louis-San Francisco Income 6s of 1960 reached 92¼. Chicago and Northwestern General 4s and Colorado and Southern First 4s were also particularly active at higher quotations. Erie, Seaboard and other southern issues were strong at rising prices as were also underlying issues of the Southern Pacific and Pennsylvania systems. Basis for strength in Denver and Rio Grande Western 5s was revealed in publication of figures showing a large gain in earnings over the corresponding period of 1925. Car loadings are still being maintained nationally at record figures. Railway executives look for a continuance of heavy traffic for the rest of the year, which should enable the principal railroad systems to show the best operating results in their entire history.

Foreign Dollar Bonds

The month's outstanding event in the foreign field was the offering of $50,000,000 Kingdom of Belgium 30-year 7 per cent bonds. These bonds are part of a $100,000,000 international stabilization loan issued for the purpose of placing Belgian currency upon a gold basis. Of the balance of the loan, £7,250,000 were offered in England, £1,250,000 in Holland, 32,000,000 francs in Switzerland and 9,000,000 kroner in Sweden. This offering marks another step in the progress of European stabilization. Some months ago the Belgian government arranged for a substantial reduction in its domestic public debt through the issuance of Preference Shares in the Belgian National Railway Company, which now operates the Belgian State railways. Extraordinary tax measures will bring receipts sufficiently above the current year's budget requirements to allow retirement of approximately 600,000,000 francs of public debt. Governmental estimates for 1927 indicate a net reduction during that year of approximately 1,350,000,000 francs. In connection with its stabilization program the National Bank of Belgium is to receive the benefit of additional credits advanced by principal central banks of the world, including these institutions in Austria, England, France, Germany, Holland, Hungary, Japan, Sweden and the United States. Coincident with the flotation of the present loan the Belgian franc has been established on a gold basis of 175 francs to the pound sterling, or approximately 2.78 cents per franc. A new unit for foreign trade has also been established, known as the Belga, which has a value of 7.2 to the United States dollar or five times that of the stabilized franc.

These Belgian 30-year 7s were offered at 94 and interest to yield approximately 7.50 per cent. The bonds were heavily oversubscribed and are now being dealt in on a "when issued" basis at a price about 1¾ points above the original offering. The favorable reception of the new Belgian issue stimulated the foreign market generally. French issues went into new high ground with the 8s selling at 105¼ and the 7s at 94¾. German, Finland and Polish obligations shared in the activity and moved fractionally upward. Belgian 6s and 6½s, both of which reacted slightly at the time the new issue was offered, more than made up their losses later.